COMPANY RESEARCH AND ANALYSIS REPORT

TOKAI Holdings Corporation

3167

Tokyo Stock Exchange Prime Market

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Index

Summary

Launching a new medium-term management plan, aiming for sustainable growth by strengthening the earnings base and bolstering investments in human resources

Based in Shizuoka Prefecture, TOKAI Holdings Corporation <3167> (hereafter, also "the Company") is a comprehensive lifestyle infrastructure company that is developing "energy and lifestyle-related business," primarily the provision of liquefied petroleum (LP) gas, and "information and communications business." Based on its strengths of "customer power" with over 3.20mn customers, "comprehensive capabilities" to provide a wide range of products and service in a one-stop manner, and "marketing abilities" to immediately address customer needs, it continues to steadily grow.

1. FY3/23 results overview

In the FY3/23 consolidated results, net sales increased 9.3% YoY to ¥230,190mn, while operating profit decreased 5.5% to ¥14,919mn. Net sales increased for six consecutive fiscal years, reaching a new record high. This reflected expansion of customer numbers, higher sales prices linked to rising energy prices, and growth in information and communications business for corporate clients. Operating profit declined because impact from soaring LP gas purchasing prices and a rise in customer acquisition costs outweighed profit growth from higher monthly-billing revenue due to an increase in the number of customers and profit growth in the information and communications business for corporate clients. However, both net sales and operating profit exceeded the Company's forecast (net sales of ¥223,000mn, operating profit of 14,500mn). There were 3,299,000 continuing customers at end-FY3/23, up 106,000 from at end-FY3/22.

2. Announcement of the new medium-term management plan 2025

In May 2023, the Company announced the new medium-term management plan 2025. The plan aims for sustainable growth by expanding the customer base and providing services that lead to the realization of diverse lifestyles and decarbonization, while strengthening investments in human capital. It presents numerical management targets for FY3/26 of net sales of ¥260.0bn, operating profit of ¥17.5bn, and 3.57mn continuing customers. The average annual growth rate will be 4.1% for net sales and 5.5% for operating profit. It envisions operating profit growth of about ¥2.6bn, with ¥1.0bn from growth in the construction equipment and real estate business. The Company has engaged in sales activities in the Tokai area that leverage the "comprehensive capabilities" of a company which has conducted M&A over the past few years and looks to expand its business scale. Additionally, the Company envisions steady growth in other core businesses through expansion of the customer base. The plan looks to generate cash flow from operating activities totaling ¥69.0bn over its three fiscal years and allocate ¥55.0bn of those funds to investments and ¥13.0bn to shareholder returns. Also, the Company's long-term vision aims for net sales of ¥400.0bn, operating profit of ¥30.0bn, and 5mn continuing customers in FY3/31.

3. Outlook for FY3/24

For FY3/24 consolidated results, the Company targets net sales growth of 4.3% YoY to ¥240,000mn and operating profit growth of 0.5%. The construction equipment and real estate business and the information and communications business for corporate customers are to drive net sales. The Company targets steady growth in continuing customers with an increase of 84,000 to 3,384,000. It assumes operating profit will be on par with the previous fiscal year due to a drag from a ¥1.0bn increase in personnel expenses from expansion of investment in human capital, but believes the investments are necessary to achieve sustainable growth. The Company projects recurring profit will rise 12.9% YoY to ¥15,000mn, turning to growth for the first time in two fiscal years since the equity-method investment loss posted in the previous fiscal year will drop out.

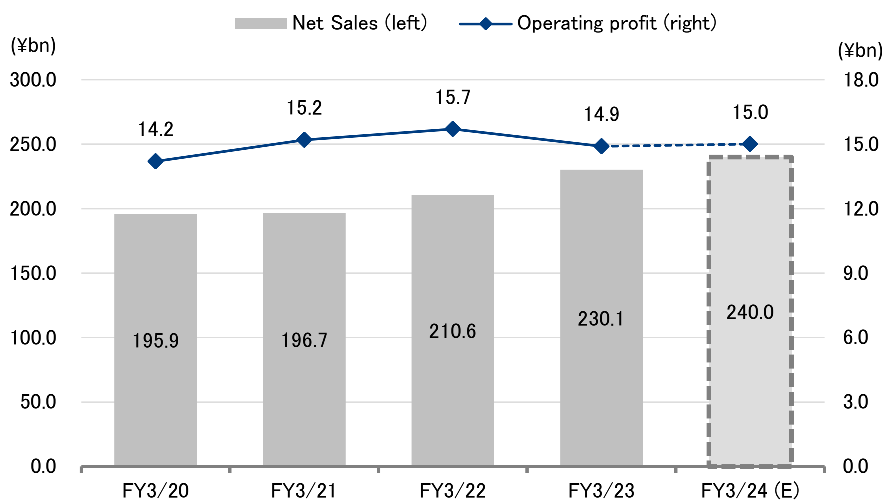
4. Shareholder return policy

The Company actively returns profits to shareholders by paying dividends and providing perks and gifts to shareholders. The Company's policy on dividends is to pay stable and continuous dividends targeting a dividend payout ratio in the 40-50% range. In FY3/24, the Company plans to pay a dividend per share of ¥32.0 (dividend payout ratio of 49.2%), which is the same amount as the previous fiscal year. As for shareholder rewards, the Company provides various perks and gifts such as QUO cards to shareholders with 100 or more shares at the end of March and September depending on the number of shares held. The estimated total investment yield per share unit, including the gifts to shareholders, based on the current share price level (closing price of ¥878 on June 8, 2023) is in the range of 4.8% to 8.3% (depending on whether the shareholder selects a QUO card or an Aqua product as the gift). In addition, the Company's policy is to flexibly acquire treasury shares if deemed necessary.

Key Points

- CATV business achieved record-high results, and energy business sales rose to the ¥100bn level
- Announced new medium-term management plan targeting operating profit of ¥17.5bn in FY3/26
- Envisions higher sales and profits in FY3/24 while strengthening investment in human capital

Results trends



Source: Prepared by FISCO from the Company's financial results

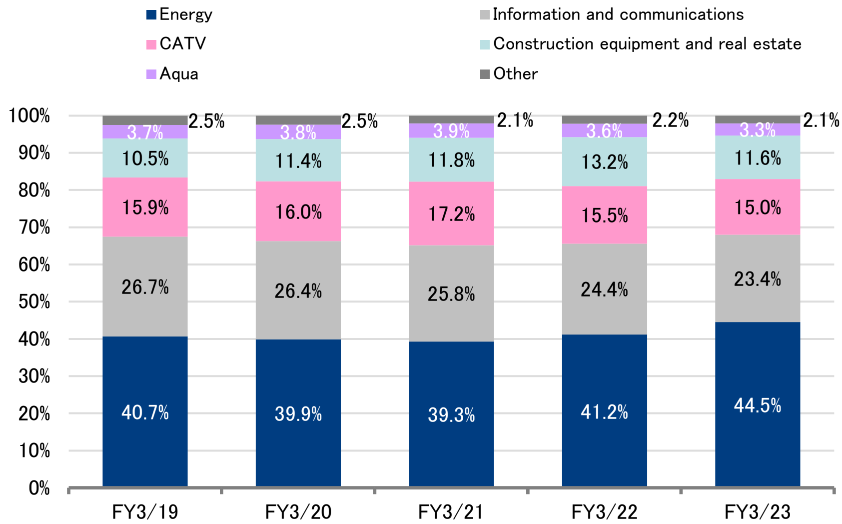
Business overview

Engaged in LP gas, information and communications, CATV and other lifestyle infrastructure services, as well as information and communications business for corporate customers and construction equipment and real estate business

Based in Shizuoka Prefecture, the Company is expanding its two main businesses, "energy and lifestyle-related business," primarily the provision of liquefied petroleum (LP) gas, and "information and communications business." It provides a complete range of services for everyday life under a one stop model and while deepening its connections with its customers, their local communities, society, and the global environment, it is striving to enrich people's lives and to contribute to the development of local communities and to the conservation of the global environment, and aims to grow into Japan's leading company for comprehensive lifestyle services.

Currently, the Company disclosures results for six business segments: the energy business, the information and communications business, the CATV business, the construction equipment and real estate business, the Aqua business, and other businesses. Looking at the sales structure by segment for FY3/23 results, the Company's original business, the energy business accounted for 44.5% of sales, the information and communications business for 23.4%, and the CATV business for 15.0%. These three mainstay businesses accounted for over 80% of net sales. Although there have not been significant changes in trends over the past five years, the energy business accounted for a slightly higher share of earnings in FY3/23 due to a rise in sales prices linked to soaring energy prices.

Ratio of net sales by business segment



Source: Prepared by FISCO from the Company's financial results

1. Energy business

In this business, about 81% of net sales are provided by the LP gas business and about 19% by the city gas business. The mainstay LP gas business is developed by TOKAI Corporation, primarily for homes and businesses and wholesales some of its products. The service areas are mainly in the Shizuoka and Kanto regions, but since 2015 it has also gradually expanded into other areas including the south Tohoku, Chubu/Tokai, Chugoku, and Kyushu areas, promoting expansion of its customer base. As of the end of March 2023, it had 746,000 contracts, and in direct sales, it ranked third after Iwatani Corporation <8088> and Nippon Gas <8174>. In terms of market share, it is the leader in Shizuoka, its home territory, with around 20%, while it has a share of just under 10% in the highly competitive Kanto region, putting it in second place. As there are approximately 20 million households nationwide that use LP gas, its nationwide market share is still at the level of just over 3%, and going forward there remains room for it to grow its share, including by expanding sales areas and conducting M&A. As the number of LP gas distributors, approximately 16,000 companies, has been gradually declining over the past few years and consolidation by large-cap companies is advancing, we at FISCO believe the Company also has a lot of room to expand its market share.

In the city gas business, TOKAI GAS CORPORATION supplies city gas in Yaizu City, Fujieda City, and Shimada City in Shizuoka Prefecture. Also, the Company expanded its service area by acquiring the city gas businesses operated by the respective local governments of Shimonita Town, Gunma Prefecture (starting from April 2019) and Nikaho City, Akita Prefecture (starting from April 2020). The number of contracts was 75,000 at the end of March 2023. There are 193 operators (175 private, 18 public) nationwide in the city gas operator market, but with the exception of the four largest companies, most are small- to medium-sized operators with limited service areas. Following the liberalization of the retail city gas market in April 2017, the Company has been implementing a strategy of expanding business areas by bringing operators in various regions into the Group through M&A.

2. Information and communications business

The information and communications business, which is conducted by TOKAI Communications Corporation, is comprised of the consumer ISP (Internet service provider) business and mobile business (sales agents of mobile phones), and a business to provide communication lines, data center services, cloud system development support and consigned systems development for corporations. Looking at the percentages of total net sales for FY3/23 results, the percentage of corporate business is trending upward, with an approximately 45% contribution from consumer business and approximately 55% from corporate business (corporate business contributed approximately 35% in FY3/17) In addition, corporate customers now account for approximately 85% of EBITDA (operating profit + depreciation and amortization + goodwill amortization).

The ISP business provides the “@ T COM” brand for the nationwide service area and the TOKAI Network Club (TNC) brand for the Shizuoka Prefecture service area, and it has the leading share within Shizuoka Prefecture of approximately 20%. In addition, from February 2015 it launched the Hikari Collaboration service (@T COM Hikari and TNC Hikari services), in which it receives wholesale provision of optical lines from NTT <9432> and provides its own optical (hikari) Internet connection service, as well as currently offering plans that include services from major mobile carriers. Also, in 2017 it also started sales of LIBMO, which is an inexpensive SIM / smartphone that uses MVNO*, and as of the end of March 2023, the Company had 407,000 customers that include using its existing ISP service, 363,000 customers using its Hikari Collaboration service, and 71,000 customers using its LIBMO service.

* MVNO (Mobile Virtual Network Operator): Operators who provide services by borrowing other companies’ wireless communication infrastructure, such as for mobile phones.

The mobile business operates 15 mobile phone stores, mainly within Shizuoka Prefecture, as a sales agency of Softbank Corp. <9434>, and as of the end of March 2023, it had 179,000 customers, continuing the downward trend from the peak of 236,000 customers in FY3/16. It also operates 7 iCracked Store stores, which provide iPhone repair services, in Shizuoka Prefecture.

3. CATV business

In the CATV business, the Company has gradually expanded the service area through its M&A strategy. Recently, it made Okinawa Cable Network Inc. into a Group company in October 2022. It provides services in Tokyo and seven prefectures: Shizuoka, Kanagawa, Chiba, Nagano, Okayama, Miyagi, and Okinawa (ten Group companies) as of the end of March 2023. The number of customers stood at 914,000 for broadcasting services and 373,000 for communications services, bringing the total to 1,287,000 customers, continuing a mild increasing trend. The number of contracts for CATV services in Japan has reached 26,900,000 in total including communications services. In the industry, the J:COM (Jupiter Telecommunications Co., Ltd.) Group holds a market share of just over 50% based on the number of subscribing households. The second-largest CATV company and smaller players have market shares in the single digits. Therefore, the Company's strategy is to continue increasing its market share through M&A going forward.

4. Construction equipment and real estate business

In the construction equipment and real estate business, TOKAI designs and constructs detached houses, collective housing, stores, and office buildings, provides building management services, sells housing equipment and appliances, and develops, buys and sells real estate, while TOKAI and TOKAI GAS are engaged in the renovation business. The Company is also proactively promoting M&A. Starting with making Nissan Tri Star Construction, Inc., a general construction company located in Gifu Prefecture, a subsidiary in September 2019, the Company moved on to make additional moves, including making Chuo Denki Construction Co., Ltd., which is engaged in the electrical equipment construction business in Aichi Prefecture, a subsidiary in August 2020, making Inoue Technica Co., Ltd., which operates a building maintenance business in Shizuoka Prefecture, a subsidiary in November 2020, and making Marco Polo Inc., which engages in the large-scale repair and renovation business for buildings in the Tokai area, a subsidiary in April 2021, and making Wood Recycle Co., Ltd., which is engaged in industrial waste treatment and woodchip manufacturing business in Gifu Prefecture, a subsidiary in May 2022. By mobilizing these Group companies' resources, the Company's strategy is to expand its business scale further as a general construction company in the Tokai area moving ahead.

5. Aqua business

In the Aqua business (bottled water home delivery business), TOKAI launched the Delicious Water Home Delivery returnable (using returnable bottles) service in 2007 in Shizuoka Prefecture, and since 2011, it has been providing its brand name water product Ulunom as a one-way (using disposable bottles) service in areas other than Shizuoka Prefecture. It has two bottle manufacturing plants within Shizuoka Prefecture for Mt. Fuji natural water, and at the end of March 2023, it had 165,000 customers, continuing a gradual increasing trend. At the end of 2022, the number of customers in the industry as a whole was 4.82 million. The annual market scale is ¥211.5bn, and the Company's share is around the 3.4% in number of customers and 3.6% in sales (approximately 50% share in Shizuoka Prefecture).

6. Other businesses

Other businesses include a nursing care business operated by TOKAI LIFE PLUS CORPORATION, a wedding ceremony business by TOKAI City Service Corporation, and a shipbuilding and repairs business by Tokaizosen-unyu Corporation. The Company launched the nursing care business in 2011, and as of March 2023, it operated six day-service facilities, a short-stay facility, and a paid-for nursing home in Shizuoka Prefecture. In addition, it has opened two care plan centers. For its wedding ceremony business, it operates Grandair Bouquet Tokai in Aoi Tower in front of JR Shizuoka Station.

Result trends

In FY3/23 results, operating profit declined, but the Company set a record high for net sales

1. FY3/23 results overview

In the FY3/23 consolidated results, net sales increased 9.3% YoY to ¥230,190mn, operating profit decreased 5.5% to ¥14,919mn, recurring profit decreased 16.5% to ¥13,289mn, net income attributable to owners of the parent declined 27.9% to ¥6,465mn.

FY3/23 consolidated results

(¥mn)

	FY3/22		FY3/23				
	Results	% of sales	Company forecast*	Results	% of sales	YoY	vs. forecast
Net sales	210,691	-	223,000	230,190	-	9.3%	3.2%
Cost of sales	125,479	59.6%	-	144,129	62.6%	14.9%	-
SG&A expenses	69,418	32.9%	-	71,141	30.9%	2.5%	-
Operating profit	15,794	7.5%	14,500	14,919	6.5%	-5.5%	2.9%
(Equity-method investment profit and loss)	-259	-		-1,977	-	-	-
Recurring profit	15,907	7.5%	12,600	13,289	5.8%	-16.5%	5.5%
(Extraordinary income/loss)	-917	-		-1,408	-	-	-
Net income attributable to owners of the parent	8,969	4.3%	6,300	6,465	2.8%	-27.9%	2.6%

*Company forecast is revised figures announced in February 2023
Source: Prepared by FISCO from the Company's financial results

Net sales grew for a sixth straight fiscal year and reached an all-time high, driven by an increase in the number of continuing customers, higher sales prices linked to rising energy prices, and growth in information and communications business for corporate clients. Net sales overall were 3.2% above the Company's forecast as the effects of higher sales prices in the energy business offset a shortfall in the construction equipment and real estate business due to weak orders. There were 3,299,000 continuing customers at end-FY3/23, up 106,000 from at end-FY3/22. By business, there was growth in the energy business of 36,000 customers, the information and communications business of 25,000 customers, and the CATV business of 56,000 customers, with an addition of 25,000 customers in the CATV business from Okinawa Cable Network Inc. becoming a subsidiary.

Number of customers by key service

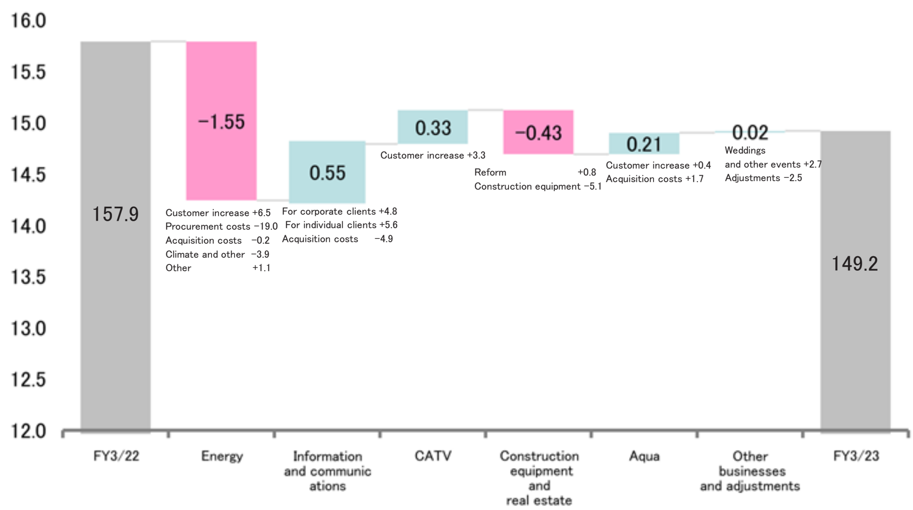
(thousand)

	2019	2020	2021	2022	YoY change
Energy	713	744	785	821	36
LP gas	652	681	715	746	31
City gas	61	63	70	75	5
Information and communications	761	785	816	841	25
Existing ISP and related services	389	395	415	407	-8
Hikari Collaboration	324	337	346	363	17
LIBMO	48	53	55	71	16
CATV	1,154	1,198	1,231	1,287	56
Broadcast service	862	875	887	914	27
Communications service	292	322	344	373	29
Aqua	161	162	165	165	0
Mobile	212	206	191	179	-12
Security	16	16	16	16	0
Total	3,003	3,099	3,194	3,299	105

Note: The number of customers under a thousand are rounded to the nearest thousand. Information and Communications and CATV both offer communications services, and so their numbers are excluded from total figures.
Information and communications services (existing ISP and related services) include contracts for ISP add-on services of PC home support service from FY3/21 4Q and PC remote service support from FY3/22 4Q.
Source: Prepared by FISCO from the Company's results briefing materials

Looking at factors for changes in operating profit by business segment, profit rose ¥0.55bn in the information and communications business, ¥0.33bn in the CATV business, and ¥0.21bn in the Aqua business, while profit declined ¥1.55bn in the energy business and ¥0.43bn in the construction equipment and real estate business to depress overall profit. Operating profit exceeded the Company's forecast by ¥0.4bn, with a shortfall in the construction equipment and real estate business offset by an overshoot in the energy business, while the others business was broadly in line with plan.

Operating profit factor analysis



Note: Value changes in operating profit are prior to allocating indirect costs and other costs
Source: The Company's results briefing materials

The significant decline in recurring profit was due mainly to recording in FY3/23 1H of an increase of ¥1,718mn YoY in equity-method investment loss from a non-operating goodwill impairment loss of ¥1,746mn caused by an equity-method Vietnam affiliate*1 that conducts LP gas sales. Moreover, the Company also recorded valuation profit on investment securities of ¥146mn and ¥51mn*2 gain on bargain purchase as extraordinary income. Meanwhile, the Company recorded an impairment loss of ¥373mn, a loss on the valuation of investment securities of ¥224mn, and special investigation fees of ¥324mn as extraordinary losses, which led to an even wider decline in net income attributable to owners of the parent.

*1 In June 2020, the Company acquired a 45% stake each (investment amount of roughly ¥2.1bn) in MIEN TRUNG GAS JOINT STOCK COMPANY (LP gas wholesale business) and V-GAS PETROLEUM CORPORATION (LP gas wholesale, container manufacturing business), both subsidiaries of PETRO CENTER CORPORATION, a leading LP gas distributor in Vietnam.

*2 Gain on bargain purchase related to making a subsidiary of Okinawa Cable Network Inc. through a stock acquisition (capital ratio of 70%) in October 2022.

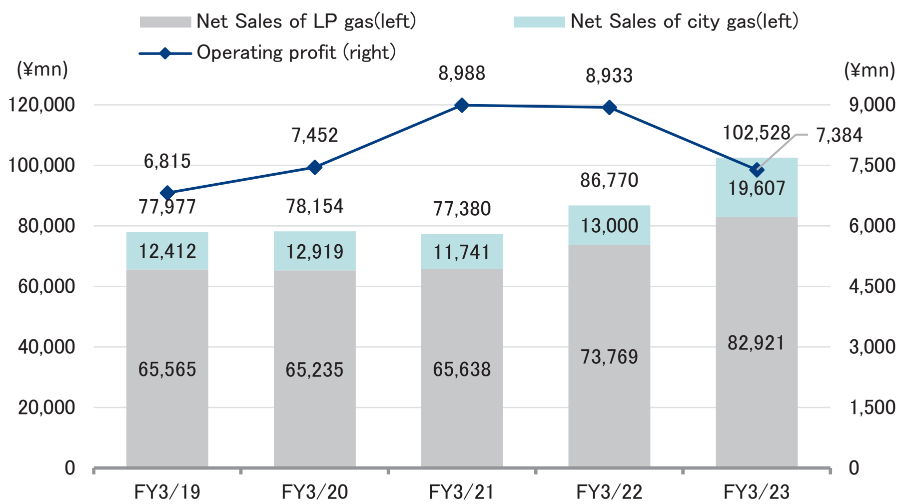
CATV business achieved record-high results, and energy business sales rose to the ¥100bn level

2. Trends by business segment

(1) Energy business

In the energy business, net sales increased 18.2% YoY to ¥102,528mn and hit an all-time high, whereas operating profit (operating profit is prior to the allocation of indirect costs and other costs, which is a different calculation method than that used in the financial results, and applies to values below as well) decreased 17.3% to ¥7,384mn. Looking at a factor analysis of operating profit, there were boosts of ¥650mn from an increase in customer numbers and ¥110mn from a reduction in other expenses, but drags of ¥1,900mn from a rise in purchasing costs (after adjustment for the extent offset by increases to sales prices), ¥20mn from higher customer acquisition costs, and ¥390mn from factors such as a decline in sales volume per customer due partly to changes in temperature (average temperature rose 0.2 degrees Celsius).

Energy business



Note: profits are prior to allocating indirect costs and other costs
Source: Prepared by FISCO from the Company's financial results

In the mainstay LP gas business, net sales were ¥82,921mn, a 12.4% increase YoY. Although total sales volume decreased 5% YoY, average sales unit prices increased approximately 10%, and there was an increase in equipment sales, which had been sluggish in FY3/22, which were factors in increased sales. Looking at a breakdown of sales volume, residential and business use decreased just under 1% YoY, and other use (including wholesale) decreased over 6%. Sales contracts for specific customers ended in March 2022 was a factor, but these were low-profit transactions, so had a negligible impact on profit. Average sales unit prices rose about 10% for all types of use.

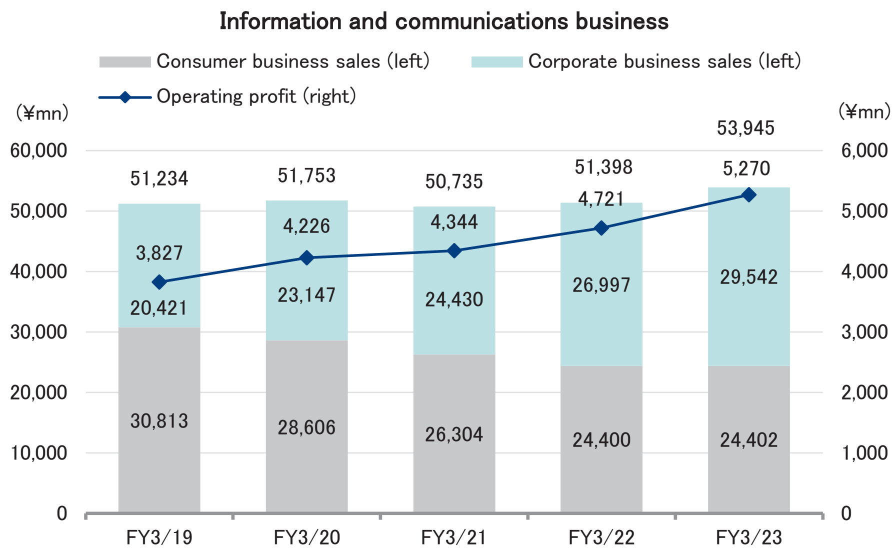
The number of customers at end-FY3/23 was 746,000, an increase of 31,000 YoY. Looking at a breakdown of the change, there were 36,000 new contracts acquired, 20,000 acquired through M&A or alliances, and 25,000 terminated or cancelled. Moreover, the number of customers increased in all areas, by 16,000 in existing areas (Shizuoka Prefecture and metropolitan Tokyo) and 20,000 in new areas (other regions). The number of customers acquired from M&A was below the Company's forecast due partly to COVID-19 lengthening negotiation periods, but customer acquisitions were solid aside from that. Also, measures to retain customers were effective as suspensions and cancellations declined 26,000 YoY.

In the city gas business, net sales increased significantly by 50.8% YoY to ¥19,607mn, and the number of customers increased by 5,000 to 75,000 customers. The majority of the increase in customers is attributable to contracts with equity-method affiliate T&T Energy Co., Ltd.* Most of the increase in sales was due to higher sales unit prices resulting from the raw material cost adjustment system, while equipment sales, etc. also recovered.

* T&T Energy was established in 2019 as a joint venture between TEPCO Energy Partner, Incorporated and TOKAI CORPORATION. The company operates a city gas and electricity retail business in the three prefectures of the Tokai region.

(2) Information and communications business

In the information and communications business, net sales increased 5.0% YoY to ¥53,945mn, while operating profit increased 11.6% to ¥5,270mn. The segment's sales reached a record high for the first time in three fiscal years.



Note: profits are prior to allocating indirect costs and other costs
Source: Prepared by FISCO from Company's financial results

In the business for consumers, net sales were flat YoY at ¥24,402mn, but operating profit grew ¥70mn. Although customer acquisition costs rose ¥490mn, growth in customers for Hikari Collaboration and LIBMO (inexpensive SIM service) boosted profit by ¥560mn. The number of customers at end-FY3/23 was down 8,000 YoY to 407,000 for conventional ISP services, but up 17,000 to 363,000 for Hikari Collaboration and up 16,000 to 71,000 for LIMBO. There was an increase in customer acquisition for Hikari Collaboration through the tie-up with a major mobile carrier, and customer acquisition progressed via traditional home electronics retailers. In addition, digital marketing measures for LIBMO worked well and adoption* as one of NTT DOCOMO, INC.'s low-cost mobile services from December 2022 was a factor in the increase.

* Started handling as an option in the economy MVNO service options at NTT DOCOMO shops throughout Japan from December 21, 2022. LIBMO is the third service to be handled, following OCN Mobile ONE from NTT Communications Corporation and TONE mobile from FreeBit Co., Ltd.<3843>.

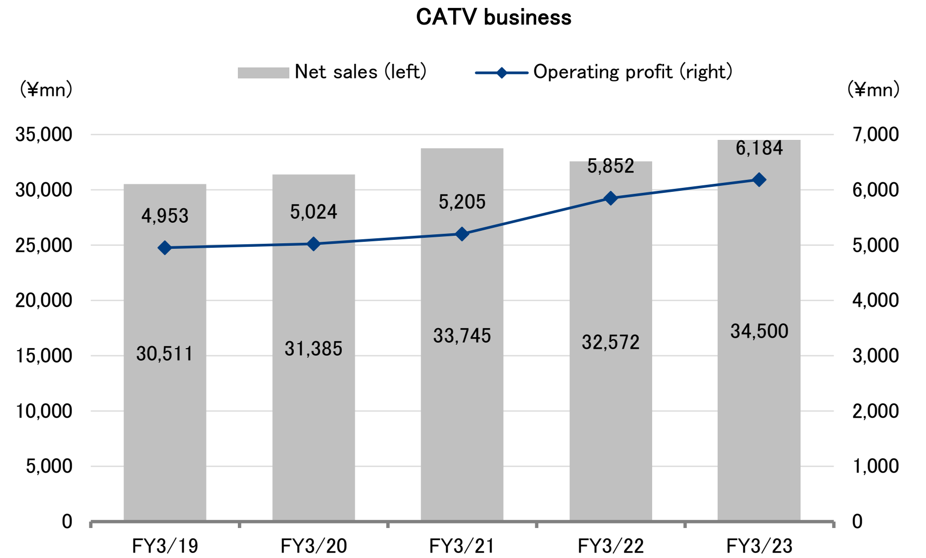
Although the number of customers has increased, net sales have not grown because the average net sales per Hikari Collaboration customer has gone down. This is because the optical communication service part of the tie-up agreements with the major mobile carrier is excluded from recording under net sales (and has no impact on gross profit), and this practice has had the effect of driving down average net sales. However, these negative effects appear to have run their course, and from 2Q onward there has been a reversion to increased sales, albeit slightly, on a YoY basis. Sales turned up (rising 1.8% YoY in 4Q), and are expected to swing to growth for the full fiscal year in FY3/24.

In the business for corporate clients, net sales increased a solid 9.4% YoY to ¥29,542mn, and operating profit grew ¥480mn with support from higher sales. Steady growth in recurring revenue data communications services and cloud services, along with robust incoming orders for contracted systems development drove net sales growth.

(3) CATV business

In the CATV business, net sales increased 5.9% YoY to ¥34,500mn, while operating profit increased 5.7% to ¥6,184mn, achieving record-high results. Factors in the improved sales and profit include a focus on community-based information dissemination and program production, collaboration with major video distributors to enhance content, expansion of areas to which it provided high-speed optical communications services, resulting in an increase of broadcast + communication service set contracts. Okinawa Cable Network Inc. being made into a subsidiary in October 2022 appears to have boosted new sales by nearly ¥400mn and operating profit by about ¥100mn.

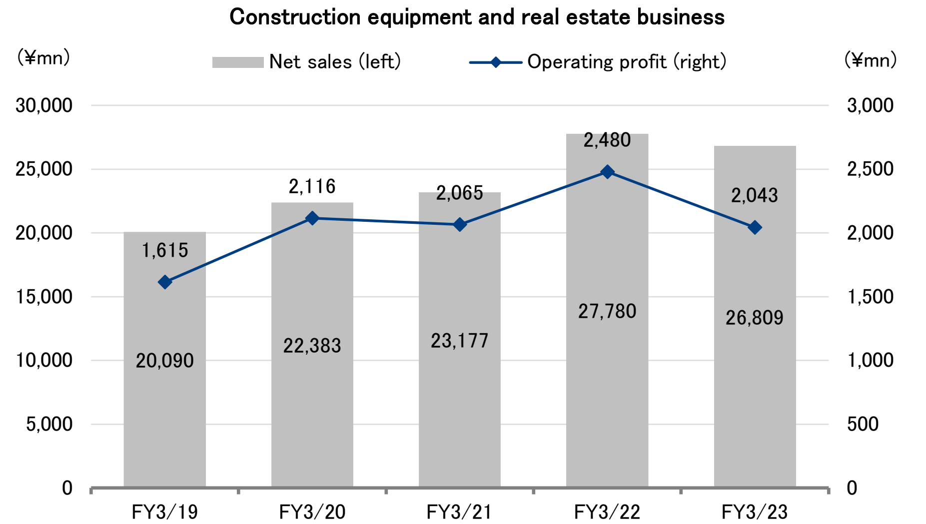
Broadcast services had 914,000 customers at end-FY3/23 (of which, 16,000 for Okinawa CATV), up 26,000 from the end of the previous fiscal year, and communications services had 373,000 customers (of which, 9,000 for Okinawa CATV), up 29,000. The ratio of broadcast services subscriptions to communications services subscriptions continues to rise, up to 40.8% at end-FY3/23 from 38.7% at the end of the previous fiscal year, indicating that average sales per household is also increasing due to contracts for multiple services.



Note: Profit is prior to allocating indirect costs and other costs, and, while FY3/22 net sales declined due to application of the Accounting Standard for Revenue Recognition, net sales remain on an uptrend in real terms.
Source: Prepared by FISCO from the Company's results briefing materials

(4) Construction equipment and real estate business

In the construction equipment and real estate business, net sales declined 3.5% YoY to ¥26,809mn, and operating profit decreased 17.6% to ¥2,043mn. Sales and profit declined because large facilities projects, civil engineering work, and projects for building new stores and other facilities decreased. As for subsidiary earnings, Nissan Tri Star Construction's sales and profit declined. This apparently reflects a pullback from repair work due to river flooding in Gifu Prefecture in the previous fiscal year. Other subsidiaries' earnings were apparently strong.

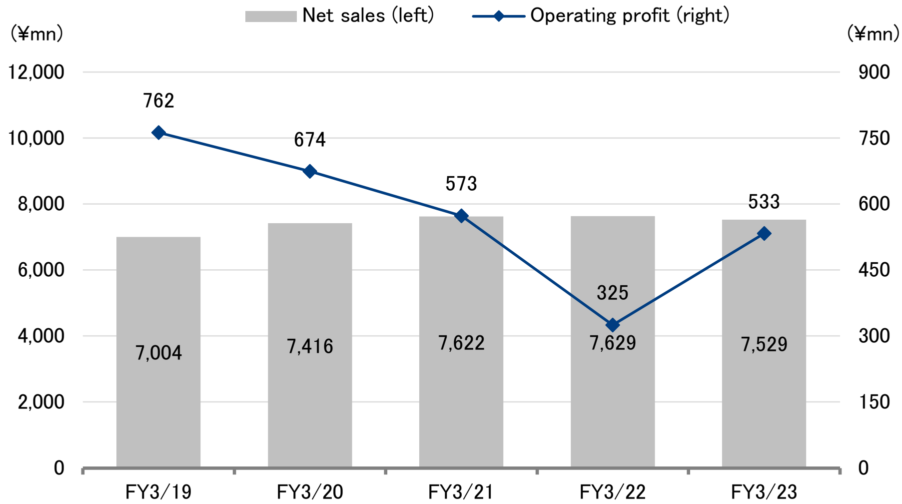


Note: profits are prior to allocating indirect costs and other costs
Source: Prepared by FISCO from the Company's results briefing materials

(5) Aqua business

In the Aqua business, net sales declined 1.3% YoY to ¥7,529mn, but operating profit rose 64.0% to ¥533mn. Sales declined as the number of customers was flat YoY at 165,000, and the average consumption volume per customer decreased due to stay-at-home demand having run its course. Profit rose as growth in the average number of customers during the fiscal year outweighed slightly higher costs for acquiring customers and lower average consumption volume per customer due to stay-at-home demand having run its course.

Aqua business



Note: profits are prior to allocating indirect costs and other costs
Source: Prepared by FISCO from the Company's results briefing materials

(6) Other businesses and adjustments

In other businesses, net sales increased two consecutive fiscal years, up 7.4% YoY to ¥4,876mn. Breaking this down, sales in the nursing care business increased 0.7% to ¥1,362mn due to the increase in the number of users, while in the wedding ceremony business, a sharp recovery in demand for weddings and parties resulted in sales increasing 56.5% to ¥1,012mn. Meanwhile, in the shipbuilding business, sales increased 2.2% to ¥1,709mn, due to the increase of ships repaired. The segment's operating loss, including internal adjustments, was ¥6,497mn (¥6,518mn loss in the same period of previous fiscal year), flat vs. the level in the previous fiscal year.

Healthy financial status, allocating free cash flow being generated each fiscal year to shareholder returns

3. Financial position

The Company's financial status at the end of FY3/23 is as follows. Total assets were ¥193,339mn, up ¥8,865mn from the end of the previous fiscal year. Looking at the main contributing factors, cash and deposits decreased ¥384mn, whereas property, plant and equipment increased ¥4,367mn due to the effects of M&A, merchandise and finished goods rose ¥1,418mn, notes and accounts receivable-trade and contract assets increased ¥1,333mn, and "Other" under current assets rose ¥1,778mn due partly to an increase in accounts receivable.

Total liabilities came to ¥111,034mn, up ¥5,507mn from the end of the previous fiscal year. Interest-bearing debt rose ¥2,460mn, notes and accounts payable-trade increased ¥1,133mn, lease obligations under non-current liabilities increased ¥933mn, and "Other" under current liabilities rose ¥1,251mn due partly to an increase in contract liabilities. Total net assets were ¥82,304mn, up ¥3,358mn from the end of the previous fiscal year. This is mainly because ¥6,465mn in net income attributable to owners of the parent was posted, valuation difference on available-for-sale securities increased ¥852mn, and foreign currency translation adjustment rose ¥371mn, which offset dividend payments of ¥4,334mn.

The Company's equity ratio, which is an indicator of financial soundness, decreased by 0.4ppt YoY to 41.5%, reliance on interest-bearing debt increased from 23.9% to 24.1%, and the interest-bearing debt/EBITDA ratio rose from 1.39x to 1.50x. Free cash flow came to ¥7,041mn, holding at a stable surplus, and the Company is providing dividends and other returns to shareholders within that range. Growth in the number of continuing customers each fiscal year and increasing monthly-billing revenue appears to be contributing to the generation of stable free cash flow, and is one of the Company's strengths. The Company intends to continue allocating cash acquired from operating activities to grow investments, including M&A, and shareholder returns.

Consolidated balance sheets

(¥mn)

	FY3/20	FY3/21	FY3/22	FY3/23	Change
Total assets	169,972	178,974	184,473	193,339	8,865
(Cash and deposits)	4,629	5,577	4,743	4,359	-384
Total liabilities	103,989	102,917	105,527	111,034	5,507
(Interest-bearing debt)	48,273	42,128	44,148	46,608	2,460
Net assets	65,982	76,056	78,946	82,304	3,358
Equity ratio	38.0%	41.6%	41.9%	41.5%	-0.4pt
Degree of reliance on interest-bearing debt	28.4%	23.5%	23.9%	24.1%	0.2pt
Interest-bearing debt/EBITDA ratio	1.63	1.36	1.39	1.50	0.11x

Source: Prepared by FISCO from the Company's financial results

Cash flow conditions

(¥mn)

	FY3/20	FY3/21	FY3/22	FY3/23
Cash flows from operating activities	22,535	32,223	20,808	21,193
Cash flows from investing activities	-12,131	-17,068	-14,592	-14,152
Free cash flow	10,404	15,155	6,216	7,041
Cash flow from financing activities	-10,375	-14,064	-6,905	-7,459
Cash and cash equivalents at end of period	4,046	5,136	4,447	4,028

Source: Prepared by FISCO from the Company's financial results

Business overview

Announced a new medium-term management plan targeting operating profit of ¥17.5bn in FY3/26

1. Overview of the new medium-term management plan 2025

The Company revised the four-year medium-term management plan that started in FY3/22, and announced a new three-year medium-term management plan ending in FY3/26. Its strategy is basically unchanged. Over the past fiscal year or two, the market climate has become increasingly uncertain, while values have become more diverse, IT technology has advanced, and a need to address medium- to long-term issues with an eye to society's sustainable growth has emerged. The Company also updated its plan considering these current situations.

The plan sets out three key themes to work on over the next three years. They are growing business earning power by expanding the earnings base and rolling out new services, strengthening foundations for sustainable growth towards achieving decarbonization, and maximizing the organizational vitality and developing the human resources that are sources of growth. The plan's numerical management targets for its final fiscal year, FY3/26, are net sales of ¥260.0bn, operating profit of ¥17.5bn, net income attributable to owners of the parent of ¥10.0bn, and 3.57mn continuing customers. The plan calls for average three-year growth rates of 4.1% for net sales, 5.5% for operating profit, and 2.7% for the number of continuing customers. Given that customer numbers grew at an average annual rate of 3.2% over the past three years, we at FISCO believe the plan is highly plausible. Regarding management indicators, the plan aims to raise capital efficiency, lifting ROE from 8.2% in FY3/23 to 10.8% and ROIC from 8.3% to 8.7%. It envisions the equity ratio at around 40%, in line with the current level, since growth investments will also continue.

Management numerical targets for the medium-term management plan (2025) (Announced in May 2023)

(¥bn)

	FY3/23 Results	FY3/24 Forecasts	FY3/25 Forecasts	FY3/26 Forecasts	Average annual growth rate
Net sales	230.2	240.0	250.0	260.0	4.1%
Operating profit	14.9	15.0	16.0	17.5	5.5%
Net income attributable to owners of the parent	6.5	8.5	9.0	10.0	15.4%
Cash flows from operating activities	21.2	21.7	23.0	24.4	4.8%
Number of continuing customers (ten thousand)	330	338	348	357	2.7%
Dividend payout ratio	64.8%	49.2%	40~50%		
ROE	8.2%	10.3%	10.4%	10.8%	
ROIC	8.3%	8.0%	8.2%	8.7%	
Equity ratio	41.5%	Around 40%			

Note: Uses rounded values
Source: Prepared by FISCO from the Company's medium-term management plan and financial results briefing materials

No. of continuing customers by business

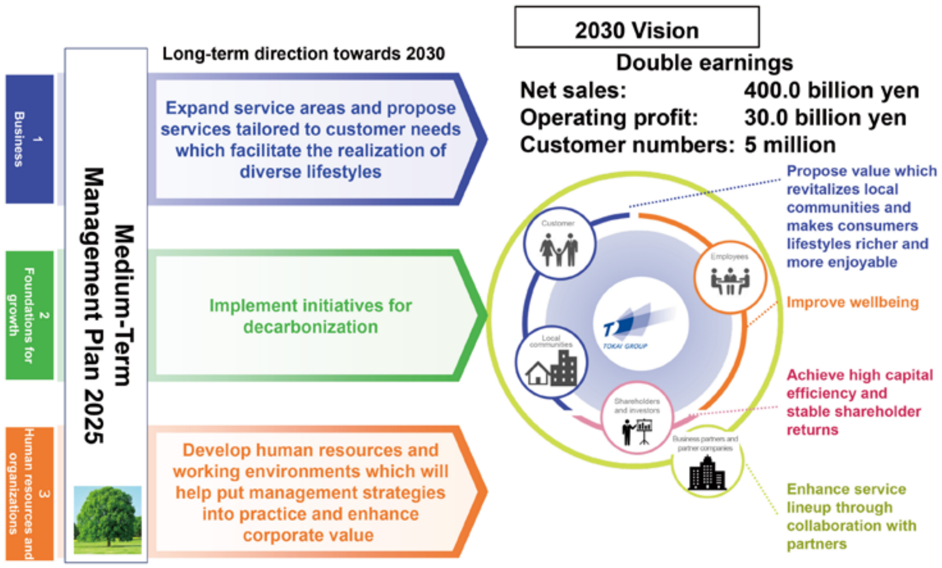
(Unit: 10,000 customers)

	FY3/23	FY3/26 forecasts	Average annual growth rate
LP gas / city gas	82	94	4.7%
ISP, etc. (including Hikari Collaboration)	84	93	3.5%
CATV (broadcast / communications)	129	135	1.5%
Aqua	17	19	3.8%
Mobile and Security	20	16	-7.2%
Total	330	357	2.7%

Source: Prepared by FISCO from an interview with the Company

Additionally, the Company presented its long-term vision for FY3/31 targeting net sales of ¥400.0bn, operating profit of ¥30.0bn, and 5mn continuing customers. Since those are challenging goals to achieve with organic growth alone, M&A strategies are expected to be pursued as well.

Vision for FY3/31



Source: The Company's medium-term management plan materials

Aiming for sustainable growth by expanding the earnings base and deploying new services

2. Growth strategy

(1) Growing business earning power

As a growth strategy, the Company aims to expand its earnings base by adding new service areas along with acquiring more customers in existing service areas. In addition, it apparently plans to leverage frontline capabilities in rolling out new services tailored to increasingly diverse lifestyles and values along with regional needs with the aim of monetization and business expansion.

Strategy by business segment and results targets

	Expansion of earnings base (Area/ No. of customers)	Rollout new services	Results targets			
			FY3/23		FY3/26	
Energy	• Further develop existing operating areas (raise ARPU via cross-selling) • Expand sales capabilities in Western Japan and the Chukyo region • Advance M&A and alliances in LP gas and city gas	• Rollout new services for regional revitalization • Rollout new services for solving social issues (Expand sales of TOKAI ZERO SOLAR based on the power purchase agreement (PPA) model)	Net sales	¥102.5bn	Net sales	¥108.7bn
			Operating profit	¥7.4bn	Operating profit	¥7.8bn
			No. of customers	820,000 customers	No. of customers	940,000 customers
For corporate information and communications business	• Expand business areas in Japan	• Expand cloud services overseas	Net sales	¥29.5bn	Net sales	¥39.0bn
			Operating profit	¥4.7bn	Operating profit	¥5.1bn
For individual information and communications business	• Strengthen cooperation among channels to increase the number of customers	• Enhance the service lineup	Net sales	¥24.4bn	Net sales	¥25.9bn
			Operating profit	¥0.6bn	Operating profit	¥1.4bn
			No. of customers	840,000 customers	No. of customers	930,000 customers
CATV business	• Accelerate growth of two recent acquisitions (Sendai and Okinawa)	• Enhance internet access services and optional services • Develop and provide new businesses and new services by further developing regional business	Net sales	¥34.5bn	Net sales	¥37.9bn
			Operating profit	¥6.2bn	Operating profit	¥6.4bn
			No. of customers	1.29mn	No. of customers	1.35mn
Construction equipment and Real estate business	• Expand business in the Chukyo region • Win combined orders through interdivisional cooperation	• Expand the types of work offered (construction, equipment installation, electrical work, civil engineering work, repair and maintenance work) • Sell GQ system, an off-grid housing system • Implement energy-saving initiatives (solar power, EV charging points, etc.)	Net sales	¥26.8bn	Net sales	¥37.3bn
			Operating profit	¥2.0bn	Operating profit	¥3.0bn
Aqua business	• Strengthen sales in the Shizuoka, Kanto and Chukyo areas (returnable/disposable bottles)	• Sell mains-fed purified water dispenser nationwide	Net sales	¥7.5bn	Net sales	¥8.7bn
			Operating profit	¥0.5bn	Operating profit	¥0.8bn
			No. of customers	170,000 customers	No. of customers	190,000 customers

Source: Prepared by FISCO from the Company's medium-term management plan materials

a) Energy business

In the energy business, the Company looks to expand into highly efficient operating areas while increasing the concentration of sales from "points" to "lines" and then from "lines" to "areas." It also aims to set itself apart from competitors by improving business efficiency and enhancing customer satisfaction through DX. Further, it plans to launch new services for regional revitalization.

Regarding operating area expansion, the Company plans to establish eight new bases in the Western Japan and Chukyo region over the three years to FY3/26 (one new base already established in Matsuyama City, Ehime Prefecture in March 2023). In DX initiatives, the Company is working to go paperless by introducing tablets and an electronic approval system. It is also deploying electronic meters using LPWA* technology not just to make meter reading work more efficient but also to optimize delivery periods, routes, and so forth. The electronic meters are equipped with a function that uses the data from readings to improve delivery forecast accuracy. The Company began introducing electronic meters in 2022, and it aims to bring their installation rate already at 70% to 100% by 2024. In new services, the Company launched a laundromat business at the TOKAI Gas showroom, and plans to rollout camping grounds in collaboration with Fujieda City, roadside stations, and the like. Moreover, it intends to propose installing solar power systems to LP gas and other customers (housing complex owners, detached home owners).

* LPWA stands for low power wide area

As for performance targets, the Company aims to increase net sales from ¥102.5bn in FY3/23 to ¥108.7bn in FY3/26, and operating profit from ¥7.4bn to ¥7.8bn, and the number of customers from 820,000 to 940,000. Average unit prices for LP gas, etc. declined 2-3% YoY in FY3/23, but the Company assumes flat growth in FY3/24 onward. Since the number of customers rose 110,000 over the past three fiscal years, adding 120,000 customers looks feasible.

b) Information and communications business

In the information and communications business for corporate clients, the Company anticipates growing demand for digital transformation (DX) in Japan and overseas and advancement of cloud services, including by governments, and looks to proactively develop operations, including investment in network infrastructure. In Japan, the Company plans to extend its optical communications network infrastructure to the Kyushu area, and enhance its communications network in Okayama and between Tokyo and Osaka. As for business supporting cloud system introduction, it aims to become an AWS Premium Partner, which is advantageous for business expansion. It has apparently met the necessary criteria such as the number of introductions and the number of certified individuals. and will be the 13th company in Japan to become an AWS Premium Partner if recognized.

As for performance targets, the Company aims to increase net sales from ¥29.5bn in FY3/23 to ¥39.0bn in FY3/26, and operating profit from ¥4.7bn to ¥5.1bn. Growth looks milder for operating profit than for sales because the Company expects an increase in the depreciation and amortization burden from increased capital investment in optical communication network.

In the information and communications business for consumers, the Company is sticking with its strategy of strengthening cooperation among sales channels to win customers and enhancing the service lineup to meet diverse customer needs. As for earnings targets, the Company aims to increase net sales from ¥24.4bn in FY3/23 to ¥25.9bn in FY3/26, operating profit from ¥0.6bn to ¥1.4bn, and the number of customers from 840,000 to 930,000. The Company seems to envision a rise in the profit margin, mainly due to improvements in the sales mix and a lighter depreciation and amortization burden.

c) CATV business

While the market for paid broadcasting services in Japan is gradually shrinking, the Company expects the overall market for CATV services to remain solid going forward since CATV services can be provided as a bundle with Internet, telephone, and other services. Against this backdrop, the Company looks to increase the number of subscriptions by strengthening its points of contact with customers and expanding its customer base in existing and new areas. Also, it aims to generate new revenue by developing new businesses and new services tailored to local needs at each Group company.

For the foreseeable future, the Company is prioritizing getting Sendai CATV Co., Ltd. and Okinawa Cable Network Inc. on a growth trajectory. At Sendai CATV, optical conversion of the network is driving growth in the number of customers, and a turn to profit its targeted in FY3/24 onward. While Okinawa Cable Network is profitable, the Company sees significant scope for customer acquisitions and is strengthening sales resources to further build up customer numbers. Regarding new businesses and new services, the Company plans to enhance Internet access services and optional services (home visit support, remote support, Internet security services, etc.). Additionally, it is working on planning and developing various services such as home appliance subscription and empty house management services, health businesses starting with fitness gyms, and businesses that utilize locally produced electricity starting with bicycle sharing service.

As for performance targets, the Company aims to increase net sales from ¥34.5bn in FY3/23 to ¥37.9bn in FY3/26, operating profit from ¥6.2bn to ¥6.4bn, and the number of customers from 1.29mn to 1.35mn. It targets milder growth in operating profit than net sales because it expects utilities, personnel, and other costs to increase. It is also continuing to consider M&A. If M&A is realized, that would be added to earnings.

d) Construction equipment and real estate business

In the construction equipment and real estate business, the Company will harness the Group's resources to expand business in the Chukyo area as a general construction company. Subsidiaries engage in differing types of work, including construction, equipment installation, electrical work, civil engineering work, and repair and maintenance work, and have each conducted sales activities independently to date. From FY3/24, the Company plans to maximize the scale of sales by bringing together the Group's resources to win bulk orders for construction projects. This is also expected to bring forth Group synergies going forward. Group companies are engaged in an array of construction-related work, with Nissan Tri Star Construction mainly handling civil engineering work, Chuo Denki Construction Co., Ltd. taking on electrical equipment work, Marco PoloInc.. undertaking large-scale repair work, and Tokai Nondestructive Inspection Co., Ltd. handling nondestructive inspections of structures.

As for performance targets, the Company aims to increase net sales from ¥26.8bn in FY3/23 to ¥37.3bn in FY3/26, and operating profit from ¥2.0bn to ¥3.0bn. As the construction equipment and real estate business is therefore only second to the information and communications business in terms of projected net sales and operating profit growth under the new medium-term management, future developments are expected.

e) Aqua business

In the Aqua business, the Company will strengthen sales in the Shizuoka, Kanto and Chukyo areas. In particular, the Company has provided water delivery service in Shizuoka Prefecture using returnable bottles to date, but also started sales using disposable bottles in light of rising distribution costs. In April 2023, it also launched selling mains-fed purified water dispenser service nationwide, which it will use as one way to retain customers.

As for performance targets, the Company aims to increase net sales from ¥7.5bn in FY3/23 to ¥8.7bn in FY3/26, operating profit from ¥0.5bn to ¥0.8bn, and the number of customers from 170,000 to 190,000.

(2) Strengthening foundations for sustainable growth

To realize a sustainable society, the Company is promoting the GX* initiative with the aim of achieving carbon neutrality by 2050. It is promoting GX in customers' energy use by encouraging the adoption of energy-saving devices and renewable energy, as well as working together with communities to promote energy saving and decarbonization at public facilities as well as local production of energy for local consumption. As for shifting to carbon-neutral raw materials, it aims to supply carbon-neutral gas by 2030 and carbon-free fuel by 2050. As for promoting GX in its own business activities, the Company is working to reduce CO_2 emissions by optimizing delivery efficiency through the use of LPWA technology in the LP gas business, installing solar panels at its own facilities, and working to shift to 100% renewable energy for electricity used at all business sites.

* GX refers to green transformation, an initiative to transform the entire economic and social system by taking steps to achieve decarbonized society.

(3) Maximizing the vitality of the organization and human resources

The Company regards investments in people as investments to raise corporate value rather than human resource "costs." By working on developing human resources and creating an energizing work environment, the Company aims to maximize the vitality of human resources and the organization, targeting long-term, sustainable enhancement of corporate value. To that end, it has established KPIs for human capital in the areas of human resource development and corporate environment development, and will work to achieve its targets therein.

In terms of concrete measures, the Company intends to enhance the career development support system and the support system pertaining to reskilling and so on, as well as create systems and environments where each employee can make the most of their abilities. Also, the Company has started working on revising the wage system to increase work motivation, raised wages by 5% in real terms in FY3/24 (total amount ¥1.0bn), and will continue responding flexibly to labor market conditions going forward. Moreover, the Company newly introduced a performance-linked bonus system. It is also working on practicing health management.

KPIs for human capital

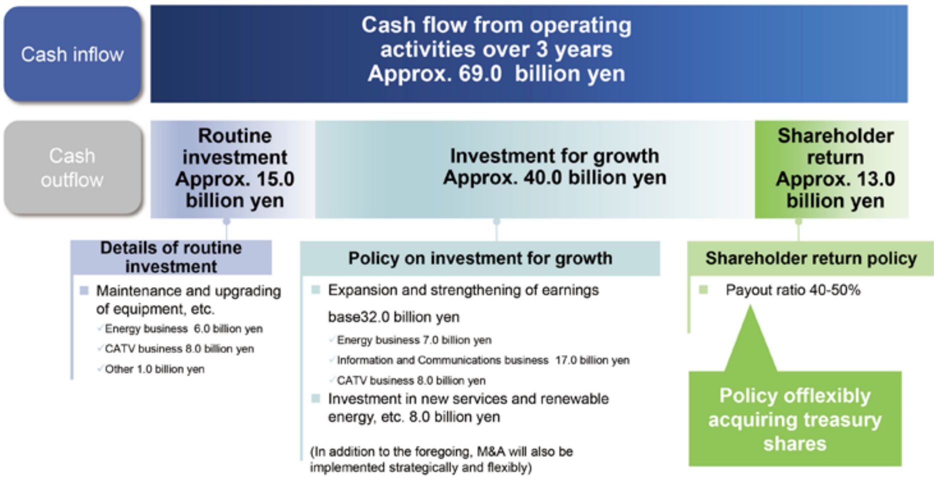
		FY3/23 Results	FY3/26 Targets	FY3/31 Targets
Human resource development	Strengths indicator*1	56.5%	65.0%	70%*3
	Autonomous career management indicator*2	65.2%	70.0%	80%*3
Corporate environment development	Psychological safety indicator	62.7%	70.0%	80%*3
	WLB (internal environment development) indicator	62.2%	70.0%	80%*3
	Ratio of health literate employees	68.1%	80.0%	85.0%
	Ratio of female managers	1.4%	3.7%	10.0%
Zero employees resigning for nursing care purposes				

*1 Measures the extent to which employees can utilize their strengths in their work
*2 Measures whether employees are conscious of autonomous career development and translating that into action
*3 The ratio of positive questionnaire responses is used as an indicator.
Source: Prepared by FISCO from the Company's medium-term management plan materials

(4) Optimal allocation of management resources

The Company expects to generate a total of about ¥69.0bn in cash flow from operating activities (management resources) over the next three years. Its plans for optimal allocation of that entail using about ¥40.0bn for growth investment, roughly ¥15.0bn for routine investment, and the remaining approximately ¥13.0bn for shareholder returns. It is considering using around ¥10.0bn of the growth investment budget for M&A, which when excluded puts the pace of annual investment at ¥15.0bn, broadly in line with the level over the past few years.

Cash flow allocation



Source: The Company's medium-term management plan materials

Expects sales and profits to rise in FY3/24, while strengthening investment in human capital

3. Outlook for FY3/24

The Company's outlook for FY3/24 consolidated results calls for net sales to rise 4.3% YoY to ¥240,000mn, operating profit to increase 0.5% to ¥15,000mn, recurring profit to increase 12.9% to ¥15,000mn, and net income attributable to owners of the parent to rise 31.5% to ¥8,500mn. The Company forecasts net sales growth in all business segments, and aims to increase the number of continuing customers by 81,000 YoY to 3,380,000. Despite only envisioning slightly higher operating profit due to a ¥1.0bn increase in personnel expenses from stepped up investment in human capital, the outlook calls for double-digit growth in recurring profit as the equity-method investment loss posted in the previous fiscal year will drop out as well as in net income attributable to owners of the parent due to a decline in extraordinary losses.

Outlook for FY3/24

(¥mn)

	FY3/23		FY3/24		
	Results	% of sales	Company forecasts	% of sales	YoY
Net sales	230,190	-	240,000	-	4.3%
Operating profit	14,919	6.5%	15,000	6.3%	0.5%
Recurring profit	13,289	5.8%	15,000	6.3%	12.9%
Net income attributable to owners of the parent	6,465	2.8%	8,500	3.5%	31.5%
Net income per share (¥)	49.41		65.10		
Number of continuing customers (thousand)	3,299		3,380		2.5%

Source: Prepared by FISCO from the Company's financial results

Results by segment

(¥mn)

<Net sales>	FY3/21	FY3/22	FY3/23	FY3/24 (E)	YoY
Energy	77,380	86,770	102,528	103,000	0.5%
Information and communications	50,735	51,398	53,945	57,200	6.0%
CATV	33,745	32,572	34,500	36,000	4.3%
Construction equipment and real estate	23,177	27,780	26,809	30,600	14.1%
Aqua	7,622	7,629	7,529	7,800	3.6%
Other business	4,065	4,540	4,876	5,400	10.7%
Total	196,726	210,691	230,190	240,000	4.3%

<Operating profit>	FY3/21	FY3/22	FY3/23	FY3/24 (E)	YoY
Energy	8,988	8,933	7,384	7,500	1.6%
Information and communications	4,344	4,721	5,270	5,400	2.5%
CATV	5,205	5,852	6,184	6,000	-3.0%
Construction equipment and real estate	2,065	2,480	2,043	2,200	7.7%
Aqua	573	325	533	500	-6.2%
Other business	-5,949	-6,518	-6,497	-6,600	-
Total	15,226	15,794	14,919	15,000	0.5%

Note: FY3/24 is based on an interview with the Company
Source: Prepared by FISCO from the Company's supplementary financial results materials

(1) Energy business

In the energy business, the Company projects net sales will inch up 0.5% YoY and operating profit will rise a modest 1.6%. It envisions 862,000 customers combined for the LP gas and city gas businesses, an increase of 42,000 YoY. The Company looks for net customer additions to accelerate from 36,000 in FY3/23, and growth in M&A and alliances, which tended to be delayed in FY3/23. It assumes purchase prices and sales prices will decline 2-3%. The outlook calls for drags on operating profit of ¥1.4bn from a decline in average sales unit prices and ¥0.3bn from higher personnel costs to be neutralized by a boost of ¥1.9bn from growth in the number of customers. The plan seems somewhat conservative, considering factors such as an expected improvement in operational efficiency through DX.

(2) Information and communications business

In the information and communications business, the Company forecasts net sales growth of 6.0% YoY and operating profit growth of 2.5%. It expects net sales to continue to rise for corporate business and turn up for consumer business. It expects operating profit for corporate business to be basically flat YoY as a ¥0.2bn boost from higher sales is offset by a ¥0.2bn increase in costs from higher electricity prices. For consumer business, it expects higher sales to drive profit growth of ¥0.3bn. However, the outlook calls for a ¥0.2bn increase in costs from expansion of investment in human capital, which works out to total profit growth of ¥0.1bn YoY.

(3) CATV business

In the CATV business, the Company forecasts net sales will rise 4.3% YoY, while operating profit falls 3.0%. It assumes growth in customer numbers will result in higher net sales and boost operating profit by ¥0.1bn. However, it projects operating profit will decline ¥0.2bn in total as the boost mentioned above is insufficient to offset a ¥0.1bn increase in electricity charges and a ¥0.2bn increase in costs from expansion of investment in human capital.

(4) Construction equipment and real estate business, Aqua business, and other business

In the construction equipment and real estate business, the Company projects net sales will rise 14.1% YoY and operating profit will increase 7.7%, both turning up YoY. It expects operating profit to be buoyed ¥0.2bn by growth in large equipment construction and carbon neutrality-related equipment construction, and boosted ¥0.1bn by growth in renovation work. It assumes that will neutralize a ¥0.1bn increase in costs from expanded investment in human capital, with profit rising ¥0.2bn YoY.

In the Aqua business, the Company forecasts net sales will rise 3.6% YoY, while operating profit falls 6.2%. It envisions profit growth from an increase in the number of customers as offsetting higher costs from expanded investment in human capital. As for other businesses, the Company projects net sales will rise 10.7% YoY, with continued sales growth driven by the nursing care and wedding ceremony businesses.

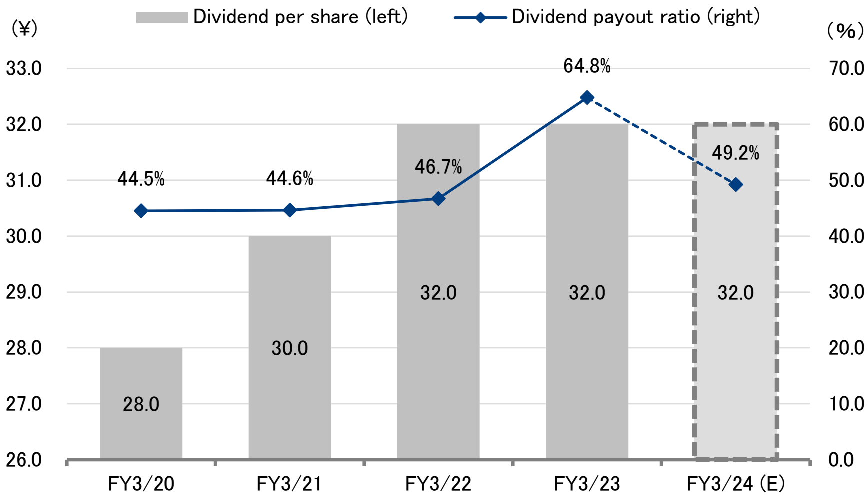
Shareholder return policy

Policy is to pay dividends targeting a dividend payout ratio of 40% to 50%, combined with perks and gifts to shareholders for a total investment yield level of 4% to 8%

The Company actively returns profits to shareholders by paying dividends and providing perks and gifts to shareholders, as well as by acquiring treasury shares depending on the circumstances. The Company plans to continue to pay a dividend targeting a dividend payout ratio in the 40-50% range. In FY3/23, the Company paid a dividend per share of ¥32.0 (dividend payout ratio of 64.8%.) In FY3/24, the Company plans to pay a dividend per share of ¥32.0 (dividend payout ratio of 49.2%), which is the same amount as the previous fiscal year.

The Company also provides gifts such as QUO cards to shareholders owning 100 or more shares at the end of March and September, according to how many shares they own. The total investment yield per share unit, including the gifts to shareholders, in an estimate using the current share price level (closing price of ¥878 on June 8, 2023), is in the range of 4.8% to 8.3% (in the case that the shareholder selects a QUO card or an Aqua product as the gift).

Dividend per share and dividend payout ratio



Source: Prepared by FISCO from the Company's financial results

Shareholder gifts

Shareholders on record at the end of March and September are presented with their choice of one of the following five type of gifts, as well as a 10% discount coupon for a standard wedding service at the Group's wedding halls, plus a discount of ¥100,000 (a maximum discount of ¥200,000) and a dining certificate with 20% discount coupon (a book of 12 certificates) for the Beau Ciel and Aoi restaurants.

Shares held	100-299 shares	300-4,999 shares	Over 5,000 shares
Aqua product	¥2,080 worth	¥4,160 worth	¥8,320 worth
QUO card	¥500 worth	¥1,500 worth	¥2,500 worth
A Group restaurant dining certificate	¥1,000 worth	¥3,000 worth	¥5,000 worth
TLC Points	¥1,000 worth	¥2,000 worth	¥4,000 worth
LIMBO monthly usage fee	¥2,100 worth	¥5,100 worth	¥11,280worth

Source: Prepared by FISCO from the Company website

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